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SUBJECT: OBSTACLES TO FMC AGRICULTURAL DEVELOPMENT PROJECT

SUMMARY: FMC IS FRUSTRATED AT OBSTACLES IT HAS ENCOUNTERED IN PROCEEDING WITH NUBARIA VEGETABLE GROWING PROJECT, PARTICULARLY GOE WISH TO REDUCE SCOPE TO \$2 MILLION PILOT PROJECT. NEVERTHELESS, COMPANY IS NEGOTIATING WITH GOE OFFICIALS IN EFFORT TO FIND SOLUTION TO CURRENT PROBLEMS. ROMANIAN OFFER TO UNDERTAKE A SIMILAR PROJECT AND RECONSTRUCTION MINISTER OSMAN'S POSSIBLE INTEREST WITH TRIAD CORP. FOR A COMPETING PROJECT MAY BE FACTORS IN GOE COOLNESS TOWARD FMC PROPOSAL. END SUMMARY.

1. IN CALL JANUARY 9 ON TREASURY OFFICE OF MIDDLE EAST AFFAIRS, FMC PRESIDENT MALOTT AND OTHER COMPANY OFFICIALS EXPRESSED FRUSTRATION AND CONCERN AT LACK OF PROGRESS ON COMPANY'S AGRICULTURAL DEVELOPMENT PROJECT SOUTH OF
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ALEXANDRIA AT NUBARIA- LETTER OF INTENT AND ALL

INDICATIONS FROM TOP GOE OFFICIALS FEW MONTHS AGO POINTED TO EARLY SIGNATURE OF CONTRACT. THEN GOE SUDDENLY ASKED PROJECT BE REDUCED FROM \$200 MILLION 10-15 YEAR DEVELOPMENT SCHEME TO \$2 MILLION PILOT PROJECT. GOE ALSO NAMED UNWIELDY TECHNICAL COMMITTEE OF 54 PERSONS TO ANALYZE AND PRESUMABLY REVIEW TECHNICAL ASPECTS OF PROJECT.

2. MALOTT EMPHASIZED COMPANY'S INSISTENCE ON TECHNICAL CONTROL OF ITS AGRICULTURAL PROJECTS WHICH USE "TOTAL SYSTEMS" APPROACH. EQUIPMENT AND MANAGEMENT ARE INTEGRATED, AND TECHNICAL INTERFERENCE BY LOCAL OFFICIALS WOULD PREVENT EFFICIENT OPERATION OF THESE HIGH-RISK ENTERPRISES. HE SAID FMC HAD ALREADY INVESTED OVER \$150,000 IN PLANNING AND ECONOMIC STUDY FOR NUBARIA. ACCORDING TO MALOTT, HE WAS ASSURED BY PRIMIN HEGAZI THAT FINANCING FROM AN ARAB HOLDING COMPANY WITH SAUDI, QATARI AND KUWAITI PARTICIPATION WAS AVAILABLE FOR \$200 MILLION PROJECT. FMC'S TEN PER CENT EQUITY HOLDING WAS TO COME FROM LOCAL FUNDS IN EGYPT.

3. PRECISE REASON FOR GOE WISH TO GO AHEAD WITH ONLY PILOT PROJECT NOT CLEAR TO FMC BUT GOE OFFICIALS HAD REFERRED TO OFFER BY ROMANIA TO DEVELOP AT NO COST LAND MADE AVAILABLE BY GOE FOR SIMILAR DEVELOPMENT PROJECT. BULGARIA MAY ALSO SEEK TO UNDERTAKE A RELATED PROJECT. HEGAZI HINTED THAT FMC MIGHT SHOW WHAT IT COULD DO ON LAND PROVIDED BY GOE. POSSIBILITY THAT RECONSTRUCTION MINISTER OSMAN MAY BE WORKING ON A COMPETING PROJECT WITH TRIAD CORP. WAS ALSO CITED BY MALOTT AS EXPLANATION FOR GOE ATTITUDE.

4. WE INFORMED FMC OFFICIALS OF REMARKS BY PRIMIN HEGAZI DURING CALL BY ASST. SECY. PARSKY AND AMBASSADOR EILTS IN NOVEMBER. HEGAZI HAD EXPRESSED FRUSTRATION AT DELAY IN REACHING AGREEMENT WITH FMC AND AT COMPANY'S INSISTENCE ON HALF-MILLION DOLLAR MANAGEMENT FEE FOR SMALLER PROJECT, SOMETHING HE COULD NOT JUSTIFY POLITICALLY. WHILE NOT RESPONDING DIRECTLY, FMC OFFICIALS POINTED TO EXPENSIVE TECHNOLOGY AND EQUIPMENT REQUIRED FOR SYSTEMS APPROACH. THEY ADDED DISCUSSIONS WERE CONTINUING WITH SENIOR GOE LIMITED OFFICIAL USE

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OFFICIALS SAID MAREI AND SAAD HAGRES.

5. WE EXPLAINED U.S. OBJECTIVE OF PROMOTING PRIVATE INVESTMENT IN EGYPT, INCLUDING TRIANGULAR INVESTMENT OPPORTUNITIES, AND OUR WILLINGNESS ASSIST U.S. FIRMS IN OVERCOMING IMPASSES THAT MAY DEVELOP. COMPANY OFFICIALS INDICATED THEY WISHED PURSUE MATTER DIRECTLY WITH HIGH-LEVEL GOE CONTACTS BUT DID NOT RULE OUT

POSSIBLE FUTURE ASSISTANCE BY USG.

6. COMMENT: ALTHOUGH ONE FMC VP HAD EARLIER
ACKNOWLEDGED TO US THAT PROPOSED FMC FEE FOR PILOT
PROJECT WAS HIGH AND THAT COMPANY WOULD RESUBMIT
PROPOSAL AND "TAKE LOSS" ON PILOT PROJECT IF NECESSARY
OBTAIN Foothold IN EGYPT, MALOTT WOULD NOT CONFIRM ANY
OF THIS. THUS, WE STILL UNSURE AS TO ESSENCE OF PRESENT

PROBLEM AND ANY LIGHT EMBASSIES MAY BE ABLE SHED ON
NUBARIA SCHEME WOULD BE APPRECIATED. KISSINGER

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